



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

ACCENDO INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2007



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March 21, 2008

Honorable D. Kent Michie
Insurance Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2007, has been made of the financial condition and business affairs of:

ACCENDO INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The current examination covers the period from January 1, 2003, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Certificates of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Company's management at the conclusion of the examination.

Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the Utah Insurance Department (Department) and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the NAIC. The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2007. Significant assets were verified and valued, and liabilities were determined or estimated necessary.

The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate. The examination determined key functions to be corporate governance, investments and capital and surplus.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment in addition to work performed by external audit functions. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

The Company was granted an exemption from the requirement to file audited financial statements with the Department for the year 2007, because no insurance premiums were written and it did not have any policyholders.

Status of Prior Examination Findings

The previous examination was performed by the Iowa Insurance Division as of December 31, 1992. There were no significant findings noted in the prior examination report.

HISTORY

General

The Company was initially incorporated on December 8, 1955 as Monumental General Insurance Company, under the laws of the state of Maryland. On October 13, 1992, Toyota Motor Credit Corporation purchased 100 percent of the Company's outstanding stock, and subsequently renamed it Toyota Motor Life Insurance Company, and the Company became an Iowa domestic company.

On September 29, 1999, Hartford Life and Accident Insurance Company, a Connecticut company, purchased 100 percent of the Company. On January 24, 2002, the Company was renamed Nutmeg Life Insurance Company (Nutmeg).

During 2007, RxAmerica LLC, a wholly-owned subsidiary of Longs Drug Stores California, Inc., formed Accendo Holding Company (AHC), for the purpose of acquiring Nutmeg from Hartford. The amended Form A for this acquisition was filed with the Iowa Department on June 28, 2007.

The Company applied for re-domestication from the state of Iowa to the state of Utah, and received its Utah Certificate of Authority effective October 3, 2007, in the name of Accendo Insurance Company.

The Company is now a wholly owned Utah subsidiary of AHC, which is wholly owned by RxAmerica LLC, both Delaware licensed companies.

The ultimate parent is Longs Drug Stores Corporation, a Maryland publicly traded holding company. Accendo Insurance Company has been a dormant "shell company" since 2002, and it was not writing any business as of December 31, 2007.

The Company's Articles of Domestication and bylaws were restated entirely on October 3, 2007, after its acquisition, name change, and redomestication to the state of Utah.

Capital Stock

The Company's Articles of Domestication authorize issuance of 5,000 shares of common voting stock with a par value of one thousand dollars (\$1,000) per share. At December 31, 2007, there were 2,500 shares issued and outstanding to Accendo Holding Company for a total of \$2,500,000.

Dividends to Stockholders

No dividends to stockholders were declared or paid during the years 2003 through 2007.

Management

The Company's bylaws indicated the number of directors may be five. The following persons served as directors of the Company as of December 31, 2007:

<u>Name</u>	<u>Principal Occupation</u>
Donald W. Anderson Danville, CA	Vice President, Business Development, Longs Drugs Stores Corporation
Roger L. Chelemedos Orinda, CA	Senior Vice President, Longs Drugs Stores Corporation
John Gardynik Draper, UT	Chief Executive Officer/President, RxAmerica, LLC
Denis J. Muskat Sandy, UT	Chief Financial Officer, RxAmerica, LLC
Gary M. Purk Salt Lake City, UT	Chief Operations Officer, RxAmerica, LLC

The Company's bylaws provided that principal officers shall consist of a president, vice president, treasurer, and secretary; and the board of directors (Board) may choose additional vice presidents and one or more assistant secretaries and treasurers, as needed. The officers of the Company, appointed at the September 10, 2007 Board meeting, and serving as of December 31, 2007, were the following:

<u>Principal Officer</u>	<u>Office</u>
Todd D. Meek	President
Douglas S. Finlinson	Treasurer
Susan L. Thorner	Secretary
Daniel R. Thorson	Assistant Treasurer
Joseph C. LaPine	Assistant Secretary

As of December 31, 2007, the Finance Committee was the Company's only principal committee, and its members were as follows:

Finance Committee Members

Donald W. Anderson
Roger L. Chelemedos
Denis J. Muskat

Conflict of Interest Procedure

The Company had a written code of ethics and conflict of interest policy in effect at December 31, 2007. There were no conflict of interest statements for 2003-2007 from the old management, while an Iowa domestic, to review during this examination. The 2008 statements were circulated for signatures from officers of Longs, RxAmerica and Accendo, during our fieldwork. Review of the code of ethics and interviews with management indicated the corporate structure, from the top down, is dedicated to high standards of business ethics.

Corporate Records

The last meeting of the Board was a special meeting held on December 17, 2007. The Board approved the minutes of prior meetings at each subsequent meeting. There was no prior Utah Insurance Department examination report on the Company, and minutes reviewed were only those minutes since acquisition and redomestication, and therefore no evidence of distribution of the Iowa examination report to the board was documented or reviewed.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

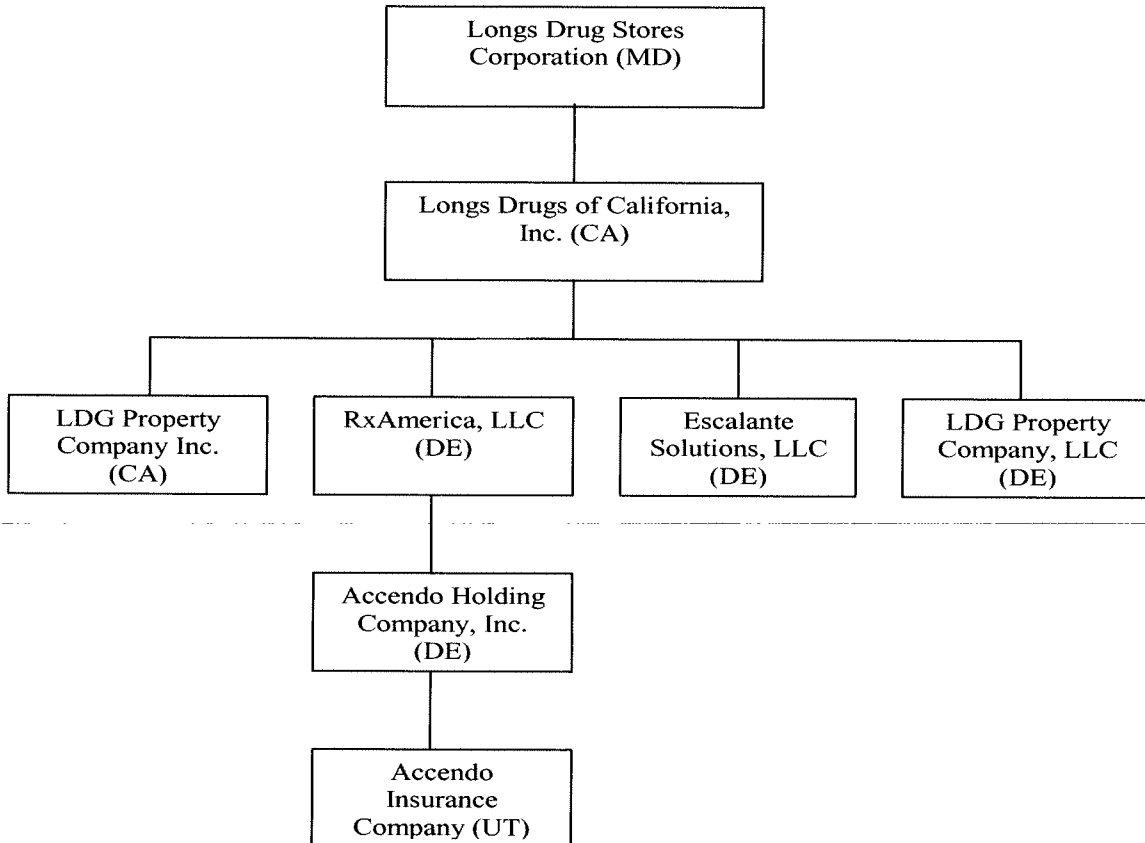
The Company had no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the years covered by this examination.

Surplus Debentures

There were no surplus debentures issued or retired during the years covered by this examination.

AFFILIATED COMPANIES

The Company is wholly-owned and controlled by Accendo Holding Company, Inc. An organizational chart illustrating the holding company system follows:



Transactions with Affiliates

As of December 31, 2007, the following agreements with affiliates were in place, covering Nutmeg Life Insurance Company.

Consolidated Federal Income Tax Liability Allocation Agreement

The Company, by the name of Nutmeg Life Insurance Company was party to a written consolidated federal income tax allocation agreement with the ultimate parent, Longs Drug Stores Corporation, Inc. and subsidiaries, dated January 26, 2007. This arrangement was pursuant to Section 1504 of the Internal Revenue Code, using the allocation methods allowed pursuant to Treasury Regulations. The agreement specifies that allocation is based upon separate return calculations with current credit for net losses, to the extent the losses provide a benefit in the consolidated return, and calls for intercompany tax balances to be settled quarterly.

Administrative Services Agreement

On November 8, 2007, an administrative services agreement was entered into between RxAmerica, LLC, and Nutmeg Life Insurance Company, by which RxAmerica, as administrator, provides the Company with professional, managerial, consultative and support services. The agreement provides that charges for services and facilities incurred shall be reasonable and in accordance with all applicable legal requirements, and reflect actual and reasonable costs incurred by RxAmerica to provide such services and facilities.

FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity bond coverage suggested by the National Association of Insurance Commissioners (NAIC) for a life and health insurance company of this Company's size and premium volume is not less than \$100,000. As of the examination date, the Company participated in fidelity bond coverage of \$10,000,000 with its ultimate parent and affiliates. The Company was also a named insured on its parent's managed care errors and omissions policy and directors and officers policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, and offered no employee benefits or insurance plans at December 31, 2007.

STATUTORY DEPOSITS

The Company's required statutory deposit is \$400,000, pursuant to Utah Code Annotated (U.C.A.) § 31A-5-211(2)(a), for a life and health company. The Company's deposit with the state of Utah at December 31, 2007 was \$2,681,785, well exceeding the minimum requirement. The examination confirmed the following special deposits held with Utah and other states at December 31, 2007.

Deposits for Benefit of All Policyholders:

State	Type of Asset	Book Value	Fair Value
Utah	US Treasury Notes	2,681,785	2,754,388
Total for All Policyholders		2,681,785	2,754,388

All Other Special Deposits

Arkansas	Cash and US Treasury Notes	193,385	203,687
Georgia	US Treasury Notes	45,014	45,801
New Mexico	US Treasury Notes	117,048	121,462
North Carolina	Bonds and Treasury Notes	466,019	487,903
South Carolina	US Treasury Notes	173,028	179,553
Virginia	Treasury Note and Money Market	239,185	253,048
Total Other Special Deposits		1,233,679	1,291,454

Total All Deposits	3,915,464	4,045,842
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INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company did not write any business as of December 31, 2007, and is not expected to until January 1, 2009. There were no policy forms or underwriting to review.

Territory and Plan of Operation

The Company holds certificates of authority in forty-six of the fifty states. At December 31, 2007, the only states in which it was not licensed were Florida, Massachusetts, Michigan, and New York. The Company is currently seeking licensure in the remaining four states, and hopes to accomplish this mid 2008, in order to start writing the Medicare Part D by January 2009.

The Utah certificate of authority allows the Company to write Accident and Health, Life, and Annuity classes of insurance. Current plans are to write only the Medicare Part D business effective January 1, 2009, upon novation of RxAmerica's waiver from the CMS to write Medicare Part D. The Company plans to expand and grow only the Part D business for the near future.

Accendo will offer two products that will be marketed as the Star Plan and Freedom Alliance Plan. These plans are currently being marketed by RxAmerica through 2008 and will be assumed by Accendo effective January 1, 2009. The products will be marketed through an automatic enrollment assignment and through the CMS Plan Finder website. The Company does not plan to use an agency force, either internal or independent.

Advertising and Sales Material

As of December 31, 2007, the Company had no advertising or sales materials of its proposed products.

Treatment of Policyholders

The Company did not write any business as of December 31, 2007, and therefore we have not reviewed the treatment of policyholders during this examination.

REINSURANCE

The Company did not write any business as of December 31, 2007, and therefore, there were no reinsurance arrangements in effect.

ACCOUNTS AND RECORDS

The Company's accounting systems were maintained on commercial software applications and use of stand-alone personal computers.

The Company held an exemption from audited financial statements at December 31, 2007, and there were no audits or independent certified accountant workpapers for examiners to review or utilize for the examination.

Custodial Agreement

The Company had investments held by a custodian, pursuant to a written custodial agreement dated October 8, 2007. As of December 31, 2007, this custodial agreement was not in compliance with Utah Administrative Code (U.A.C.) Rule 590-178, requiring certain provisions for the protection of Utah insurers and policyholders. A revised custodial agreement was subsequently executed on March 25, 2008, which was approved by unanimous written consent of the Board's Finance Committee. The reported investments were considered admitted assets at December 31, 2007, by subsequent revision of the custodial agreement, for examination purposes.

Corporate Records

At December 31, 2007, the Company maintained some corporate records at its Utah principal location and at the ultimate parent company's California location. The corporate and accounting records were made available to examiners at the Utah location, where this examination took place.

FINANCIAL STATEMENTS

The following financial statements were prepared from the Company's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of December 31, 2007

STATEMENT OF REVENUE AND EXPENSES for the Year Ended
December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS – 2003 through 2007

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part
of the financial statements.

ACCENDO INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2007

ASSETS

	Net Admitted Assets
	<u> </u>
Bonds	\$ 6,494,112
Cash and short-term investments	3,567,620
Investment income due and accrued	97,581
Total assets	<u><u>\$ 10,159,313</u></u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Current federal and foreign income tax payable	\$ 79,965
Amounts due to parent, subsidiaries and affiliates	94,328
Total liabilities	<u>174,293</u>
Common capital stock	2,500,000
Gross paid in and contributed surplus	8,000,000
Unassigned funds (surplus)	(514,980)
Total capital and surplus	<u>9,985,020</u>
Total liabilities, capital and surplus	<u><u>\$ 10,159,313</u></u>

ACCENDO INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2007

	<u>Total</u>
Net premium income	\$ -
Total revenues	<u>0</u>
Medical and Hospital:	
Hospital/medical benefits	
Outside referrals	
Other medical and hospital	
Subtotal	<u>-</u>
Less:	
Net reinsurance recoveries	
Total medical and hospital	<u>0</u>
Claims adjustment expenses	
General administrative expenses	<u>94,328</u>
Total underwriting deductions	<u>94,328</u>
Total underwriting gain or (loss)	<u>(94,328)</u>
Net investment income earned	<u>322,798</u>
Net investment gains or (losses)	<u>322,798</u>
Miscellaneous income	
Net income or (loss) before federal income taxes	<u>228,470</u>
Federal and foreign income taxes incurred	<u>79,965</u>
Net income (loss)	<u>\$ 148,506</u>

ACCENDO INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2003 through 2007

	2003	2004	2005	2006	Per Exam 2007
Capital and surplus prior reporting year	\$9,176,503	\$9,266,035	\$9,415,893	\$9,594,347	\$9,831,687
Net income or (loss)	84,184	151,073	179,545	238,727	148,506
Change in net deferred income tax	6,615	23	0	(259)	3,876
Change in asset valuation reserve	(1,267)	(1,237)	(1,091)		
Change in nonadmitted assets	0	0	0		
Aggregate write-in gain (loss) in surplus				(1,128)	951
Rounding	0	(1)	0		
Net change in capital and surplus	<u>\$89,532</u>	<u>\$149,858</u>	<u>\$178,454</u>	<u>\$237,340</u>	<u>\$153,333</u>
Capital and surplus end of reporting year	<u><u>\$9,266,035</u></u>	<u><u>\$9,415,893</u></u>	<u><u>\$9,594,347</u></u>	<u><u>\$9,831,687</u></u>	<u><u>\$9,985,020</u></u>

NOTES TO FINANCIAL STATEMENTS

There were no adjustments or notes to the financial statements as reported at December 31, 2007.

As defined by U.C.A. §31A-17 Part 6, the Company had total adjusted capital of \$9,985,020, which exceeded the company action level risk-based capital (RBC) requirement of \$10,748 by \$9,974,272.

SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

Custodial Agreement - As of December 31, 2007, the custodial agreement was not in compliance with U.A.C. Rule 590-178. This was subsequently resolved by proper execution of a new custodial agreement on March 25, 2008. (ACCOUNTS AND RECORDS)

ACKNOWLEDGEMENT

In addition to the below signed, Hermoliva Abejar participated in the examination representing the Utah Insurance Department, Colette Hogan, CFE, CPM, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Carolyn Maynard". The signature is fluid and cursive, with the first name "Carolyn" and last name "Maynard" clearly distinguishable.

Carolyn Maynard, CFE
Huff, Thomas and Company
Representing the Utah Insurance Department